H. Additional Comments Regarding Liberty's Nonrecurring Recommendations

Testimony – Liberty recommends that the nonrecurring unbundled loop component costs, I&M and CPC, be set to zero for all loops, with the CPC category cost moved over to cross connect elements. In addition, for cross connects, it implies that the "loop/port combination" cross connect be addressed separately from the "loop/cross connect" scenario. Rebuttal – With regard to CPC, the elements at issue should not be loop/port combinations as the studies should reflect UNEs and not combinations thereof. In addition, for unbundled loops, the movement of CPC to the cross connect elements presents a problem in that such activities are applicable to the loop element, not to cross connect elements. Regarding I&M, Liberty improperly assumes that a UNE loop is to be installed and working. Mr. Krafcik is correct that 2% should not be applied to what he describes as "loop/cross connect." However, any "loop/port" combination should not be at issue, and his 2% recommendation for such a combination should be moot. Mr. Krafcik's recommendation, to multiply travel/dispatch by 2% of the "loop/cross connect," is incorrect as this does not approximate the SWBT percentage dispatch, which has been documented at a higher percentage. It was not apparent what Mr. Krafcik was referring to when he described his confirmation that plug-in activities were included in recurring elements. The Craft 2 recommendation for frame activities is unacceptable. Using AT&T's SSC times is troublesome because it does not include any SSC test time for 2-Wire analog loops. Without testing, quality cannot be ensured. The recommendation to multiply the cross connect cost by 75%, or reduce it by 25%, is not appropriate for unbundling, as IDLC should not be included in a study that should address unbundling and not integration (or bundling) with the switch.

Summary of Cross-Examination of Barry A. Moore

Mr. Moore sponsored a number of studies in this docket including the unbundled loop, unbundled transport, and cross-connect studies. Mr. Moore also sponsored many of the non-recurring changes proposed by SWBT. Mr. Moore acknowledged that the cost studies he is sponsoring must comply with the requirement of the Federal Telecommunications Act and the requirements of the Oklahoma costing rules. Consequently, these cost studies muse be based on forward-looking technology. Mr. Moore's understanding of forward looking technology for purposes of a LRIC cost study is existing technology, currently available and is efficiently deployed. Mr. Moore claimed that the cost studies that he is sponsoring are TELRIC studies. A TELRIC study requires you to use the least cost, most efficient technology currently available. Based upon this understanding of a forward looking cost study, Mr. Moore assumed that, with the exception of the quantity of fiber in loops and the percentage of IDLC, the current configuration of SWBT's network satisfied the definition of a forward looking study. All such equipment could, in his opinion, be included in a LRIC study that complies with the Oklahoma costing rule. In performing his studies, Mr. Moore did not analyze whether there was more efficient or less costly equipment available to replicate the services being provided by SWBT unless his engineering group told him that they had plans to replace their equipment. Consequently, Mr. Moore believes it is all right to use old equipment in a forward looking TELRIC cost study. Mr. Moore believes the Commission in Oklahoma has required SWBT to produce cost studies that require SWBT to reflect its

network as it exists today. In performing his cost studies, he included all of the technology currently available in SWBT's network.

In the loop studies sponsored by Mr. Moore, if the length of the loop was greater than 15,000 feet, Mr. Moore assumed fiber and digital loop electronics across the entire feeder portion of the loop. Mr. Moore did acknowledge that SWBT does have some loops greater than 15,000 feet where copper is provisioned over the feeder portion of the loop. He did not perform and is not aware of any analysis to look at the cost of provisioning fiber over 15,000 feet of feeder, as compared to copper over 15,000 feet of feeder.

Cable coming out of the central office is called the feeder cable, while cable on the other side of the FDI is called distribution. The cable does not necessarily have to go through an FDI to transform from feeder to distribution. If there is an FDI or cross-connect box at the location, feeder cable is generally found on the central office side of the FDI or cross-connect box and distribution cable is generally found on the other side of the FDI or cross-connect box. There are loops in Oklahoma today that are configured in a fashion that do not have a cross-connection or FDI box. About 25 percent of the loops are configured in that fashion in Oklahoma. In his loop studies, however, Mr. Moore assumed that 100 percent of all loops will be provisioned with an FDI.

In performing all of his studies, Mr. Moore did not include any demand growth in the study. Rather, he only incorporated total current demand as of 1996. Mr. Moore is aware that Southwestern Bell performs demand forecasts and demand growth analyses. He did not incorporate any of this information into his cost studies.

The fill factor that Mr. Moore used in the loop studies is approximately 30 percent for distribution. In performing the loop studies, he determined the investment per pair and divided that investment by the fill factor so that the study incorporated all existing spare capacity. For example, in Zone 1 the loop investment for distribution is divided by .32 which has the effect of multiplying the investment by three because the investment is divided by a fraction.

When Southwestern Bell deploys facilities for a planned neighborhood, it deploys distribution for the entire neighborhood. Roughly one-third of the distribution is being utilized throughout SWBT's entire network today. Mr. Moore included the application of a fill factor in order to calculate the cost of the loop on a per line basis. By including a fill factor, the cost per line includes the cost of SWBT's unutilized capacity.

In Zone 1, Mr. Moore utilized a .32 fill factor. He assigned all of the costs associated with his utilized lines to all of the lines in Zone 1. For Zone 1, Mr. Moore captured the costs of the unutilized lines and assigned that to the cost per line.

The rate that SWBT is proposing for loops in Zone 1 is approximately $49.30. That rate includes costs for both utilized and unutilized capacity. Thus, AT&T is paying for a portion of SWBT's unutilized capacity when it purchases that Zone 1 loop.

Mr. Moore acknowledged that he has not assumed any feeder only loops in the studies. Southwestern Bell's network distribution cables have a maximum length of 12,000 feet. Mr. Moore admitted, however, that SWBT's responses to RFIs indicate that some loops in the study had a maximum distribution length of 29,000 feet.

In the loop studies, SWBT used an internal model called LPVST. In general, LPVST takes loop lengths and assigns them to different "buckets". More specifically, it takes actual sample loop lengths and assigns them to what are called kilofoot band groupings as opposed to actual loop lengths. All loops within that grouping are then assigned the length of the grouping and not assigned their actual length for pruposes of determining cost in the cost study.

In the loop studies, Mr. Moore assumed 25 percent integrated digital loop caller ("IDLC"). This information was obtained from the network organization.

In the loop studies Mr. Moore has included the cost of the network interface device ("NID"). The NID is a box which sits on the side of your house that connects the loop to the inside wiring of the customer premise. In calculating the cost of the NID, SWBT developed that cost based on the number of pairs or drops that will terminate into the NID. In the studies Mr. Moore assumed 15 percent single pair drops and 85 percent two-pair drops.

With respect to the outside plant that was used in the loop studies, Mr. Moore took the existing configuration of buried, underground and aerial plant and used that existing configuration. He did not perform any analysis to determine how that plant would be provisioned today.

Mr. Moore performed a cost study to determine the nonrecurring charges associated with the loop to switch port cross-connect. This study includes the labor costs necessary to run the cross-connect jumpers, as well as some testing of the loop after the cross-connect has been performed and some dispatch. Mr. Moore acknowledged that when an existing customer migrates to a CLEC such as AT&T, the jumper wire is already in place to connect the MDF to the switch port. In his cross-connect study, however, Mr. Moore assumed that jumper wire would be disconnected, reconnected and then tested. Indeed, Mr. Moore admitted that the testing is only necessary because the wire has been disconnected. The type of testing that is included in the study is called MLT testing. Mr. Moore has assumed in 100 percent of the times in the study that there will be a disconnect and a reconnect. Also has assumed in 100 percent of the time that there will be MLT testing.

In loop nonrecurring costs, Mr. Moore has assumed that 100 percent of the loops will be provisioned through the circuit provisioning center ("CPC"). He also assumed in the study that 56 percent of all orders provisioned through the CPC will fall out and require manual processing by SWBT before the order can be completed.

Mr. Moore has reviewed the testimony of AT&T witness Steve Turner that has been filed in this case. In some instances, he agrees with proposals or changes that Mr. Turner is recommending to the transport studies. For example, Mr. Moore now admits that the completed 26 percent fill factor for the low side equipment

that was used in the study is wrong and should be changed. SWBT now admits that the appropriate fill factor for this equipment is 92 percent. Mr. Moore also acknowledges that the transport studies should only include DC3 circuits in the DS3 study, and not the surrogate count that was used in the study be sponsored. Mr. Moore also admits that the common transport cost studies should be restated to use updated DSI dedicated transport investments. Mr. Moore also agreed with Mr. Turner to use 100 percent fill factor for DS3 and DS1 multiplexing equipment in those cost studies. None of these changes has yet been made in the SWBT cost studies.

Mr. Moore was generally aware of the stipulated rates in the agreement reached between Southwestern Bell and Cox. Mr. Moore reviewed the transport rates that are included in that agreement. Mr. Moore could not say whether or not the prices that are in that agreement are above or below the rates that would be generated by rerunning the study to include the changes that have been discussed.

In the DS3 cost study, Mr. Moore assumed a DS3 for every 28 DS1s. Mr. Moore claimed that they had to make that assumption because with the DS3s that they included in the study, there was not enough to obtain a valid weighting. SWBT didn't pull enough DS3s to perform the studies with DS3 information only. Therefore, he used theDS3/DS1 weighting as a surrogate. In the dedicated transport studies, SWBT has assumed a SONET ring technology. Mr. Moore explained what information he would include in his cost study in a hypothetical situation in which SWBT has a SONET ring that includes central offices which are marked as C, D, E, F and G. If, for instances, you wanted to get traffic from Southwestern Bell's central office A to Southwestern Bell's central office F, the cost information that he would include in COSTPROG would include the ring costs for both fiber and equipment for both your OC 12 ring and your OC 48, a network access cost, and a certain interconnection cost at point C. There is no other circuit information that would need to be included in COSTPROG to establish the unit cost to get from A to F in this example.

If you wanted to change the ring up and instead of having an OC 12 ring, you just had one central office. In terms of what you enter into COSTPROG, it would be the same information discussed above. You would enter in the fiber ring cost and the equipment ring cost for both rings. If, however, instead of office A being a Southwestern Bell central office, it is an AT&T POP and all other information remains the same, Mr. Moore admitted that while SWBT could enter that information into COSTPROG, he would not do so, even if the AT&T POP is connected to the SWBT SONET equipment. Mr. Moore admitted that he could use COSTPROG to develop transport costs from an AT&T POP to a SWBT central office and that the information that would be entered into COSTPROG would be the same as that entered to determine transport costs between SWBT's central offices, but he chose not to use COSTPROG for this cost study. If Mr. Moore wanted to use COSTPROG to derive those costs, he would enter into COSTPROG ring costs for fiber and equipment, the network access costs and the interconnection costs. The only reason that he did not determine these costs through COSTPROG or because SWBT decided to call these costs Entrance Facilities where costs should be developed in a different manner. Mr. Moore did not include in the dedicated transport study DS3s that exist in this network today between a Southwestern Bell central office and any IXC POP.

Mr. Moore admitted that in some instances it is appropriate to use an objective fill factor as a surrogate for actual fill. For example, Mr. Moore used objective fill factors for purposes of DCS and multiplexing equipment used in his cost studies.

13. Mike Michalczyk

In his rebuttal testimony in PUD 97-213 and 97-442, SWBT witness Mike Michalczyk testified that he is an Area Manager-Network I/M Operations for SWBT. His responsibilities include network operations support of designed and non-designed installation and maintenance ("I/M") services and cable repair. Mr. Michalczyk also has related responsibility over new products, services and technologies development.

Testimony – OCC Staff witness Krafcik and AT&T witness Segura suggested that the time/activities study detail for SWBT's UNE nonrecurring cost studies was inadequate or unsupported, that no effort was taken to verify the results, and that no documentation supports the results. Rebuttal – Mr. Michalczyk assisted in preparing the data request packages used to develop nonrecurring cost studies for Private Line and Special Access Services and for UNEs underlying these types of services (e.g., metallic 8dB loops, DS1). The facility types covered range from simple metallic services to optical service. Each service type was separated into logical sub-tasks, with each task defined by beginning function, work activity and ending function. The data requested for each sub-task included the level of the person who normally performs the activity and an estimate of time to perform the activity. Mr. Michalczyk prepared these definitions, along with the assistance of two other managers also skilled in this area, to delineate the precise activities that would accompany each element.

SWBT verified previously collected time estimates for nonrecurring UNE cost studies. Time estimates for specific [underlying] UNE facility types and services (particularly those on the "sub-task" lists) were identified. The time estimates were developed by experienced SWBT staff who are responsible for the areas involved. They all are reflective of an "average skill level" of the technicians who will do the work. The SWBT work force is made up of employees with varying levels of experience and time on the job. Time estimates are reflective of that variance and are targeted for an average work time.

Summary of Cross-Examination of Mike Michalczyk

Mr. Michalczyk verified time estimates previously submitted to the SWBT cost study group for private line and special access services. He admitted that there can be more time involved in provisioning private line and special access services compared to provisioning 2-wire POTS loop service.

For Oklahoma, the SWBT cost study group asked Mr. Michalczyk to verify certain time estimates that were previously submitted in another jurisdiction for a private line and special access non-recurring cost study. Mr. Michalczyk had participated in the prior cost study, which encompassed all five states in SWBT's territory. For the Oklahoma private line and special access cost study, SWBT used the time estimates from the prior five-state study without any changes. With regard to the prior five-state study, the cost study group did not specify

to Mr. Michalczyk what type of technology to assume in providing the time estimates.

For the Oklahoma study, Mr. Michalczyk did not verify the time estimates against the SWBT Work Force Administration computer system, which is used for automated scheduling purposes. The Work Force Administration system gives a broad estimate of the time it takes to perform a particular function.

Mr. Michalczyk simply relied on the field foremen and his own judgment for the reasonableness of the time estimates. Some of the testing functions for which time estimates were supplied can be performed electronically. For example, the soak test is computerized, and the technician can perform other tasks while the soak test is running. Mr. Michalczyk cannot verify whether efficiencies like this were taken into account in his time estimates or the cost study.

14. Ronald F. Huelsing

In his direct testimony in PUD 97-442, SWBT witness Ronald F. Huelsing testified that he is Director-Product Management (Public Safety) for SBC Communications, Inc. In his testimony, he explained SWBT's 911 Emergency-Number Service and presented proposed prices to be charged to CLECs for interconnection with that system. Attached to his testimony was Exhibit A, which is a list of prices proposed in this docket with the 911 prices shaded.

SWBT maintains a 911 Emergency Number Service. This service is provided to governments or their agents that have a public safety responsibility to respond to emergency police and fire calls within the 911 service area. SWBT's customer under these arrangements is the public safety agency that is responsible to receive the emergency calls. Rates are now charged according to SWBT's general exchange tariff. Under these arrangements, SWBT is the host system for numerous other telephone companies and some private switch providers. Interconnection rates for these carriers are established by the general exchange tariff.

SWBT proposes to offer interconnection to its 911 systems to CLECs at prices which are based on the same rates SWBT currently charges for interconnection under its tariff. There is a monthly rate and a non-recurring charge (1) for each 911 trunk connecting the CLEC network to the SWBT network and (2) per 1,000 exchange access lines in the CLEC's service area.

In his rebuttal testimony in PUD 97-213 and 97-442, Mr. Huelsing responded to complaints from Mr. Flappan that the nonrecurring charge for 911 service will have some adverse effect on market entry. Mr. Huelsing pointed out that SWBT proposes here that CLECs should be billed for interconnection to the 911 network using the same rate methodology applied to other telecommunications companies which now interconnect with that network. These methodologies are based primarily on labor costs. Furthermore, the charges have been approved by the appropriate regulatory bodies as part of legitimate costs to be recovered in SWBT's tariffed offerings.

The charges proposed here are necessary to cover SWBT's cost. Whether they have an impact on competitive entry to AT&T or others is simply not relevant.

15. David D. Clippard

In his direct testimony in PUD 97-213, SWBT witness David D. Clippard testified that he is Area Manager - Product Management for Southwestern Bell. In his testimony, he explained how the company developed prices for query access to the Line Information Data Base (LIDB).

LIDB is a transaction-oriented database system, providing centralized data storage and retrieval. It contains records associated with subscriber line numbers and special billing numbers, and it can process a high volume of queries very rapidly.

There are two types of queries handled by LIDB. The first is referred to as a Validation Query. These are queries to validate requests for calling card, collect and third number billing. These services are offered to operator service providers to allow the end user to bill calls to accounts that may not be associated with the originating line. Validation queries allow the operator service provider to determine whether the customer's request for alternate billing is allowed on the account to be billed.

The second type of query to LIDB is referred to as a CNAM Service Query. This query relates to the calling name (or "CNAM") associated with the calling line. When such a query is made, LIDB obtains the name associated with a calling line and other line-specific information to provide services like Caller ID.

For LIDB usage, SWBT proposes a bifurcated price structure. Each query will have (1) a per-query charge and (2) a per-query transport charge. This bifurcated price structure is the same structure SWBT already uses for LIDB Validation Queries and CNAM Service Queries for IXCs and other telecommunications companies. In 1991, the FCC concluded that a single rate element for query access to LIDB was not optimal. The two charges in the price structure proposed here are explained as follows:

- The per query charge. This charge is for use of the database and related equipment. There is a different per query charge for Validation Queries on the one hand and CNAM Service Queries on the other. The differences are based on (1) different apportionment between the per query and per transport charge and (2) fraud detection costs which were included in Validation Queries, but which were not appropriate for CNAM Service Queries.

- The per query transport charge. The per query transport charge relates to the transport of a query on the signaling network from the Signaling Transfer Point (STP) to the Service Control Point (SCP) where LIDB resides. It is the same for both Validation Queries and CNAM Service Queries.

In addition to the LIDB usage charges described, there are also nonrecurring charges for service order and point code additions.

Line Validation Administration System (LVAS) is a SWBT-owned and operated software application responsible for all LIDB administrative functions.

Telecommunications companies that store data in LIDB enter their information first into LVAS, which then updates LIDB. The FCC defines LVAS as Service Management System (SMS) which allows competitors to create, modify, or update information in call-related databases. In a change from its filings in the AT&T arbitration proceedings, SWBT has eliminated independent prices for LVAS and includes these LVAS costs in LIDB usage prices.

Sleuth is an adjunct fraud detection system SWBT uses to monitor fraud on alternately billed calls. Sleuth receives output from LIDB on every Validation Query received. Sleuth performs profile analysis on this output to identify occurrences needing investigation. Both SWBT and non-SWBT fraud investigators use Sleuth output reports to investigate and resolve potential fraud occurrences.

Summary of Cross-Examination of David Clippard

Mr. Clippard testified that the market penetration for the Caller ID feature in Oklahoma is between 40% and 50%. This is important because elsewhere, SWBT assumed that CLECs would achieve 100% Caller ID penetration in their octet per call calculation.

Mr. Clippard proposes a price for the use of certain SWBT computer systems called LVAS, Sleuth and LIDB. Mr. Clippard does not know that the expenses associated with these computer systems are recovered by SWBT in other cost studies by se of the support asset factor.

16. L. Bruce Sparling

In his direct testimony in PUD 97-213, SWBT witness L. Bruce Sparling testified that he is Director-Competitive Assurance for SWBT. In his testimony, he addressed SWBT's proposed prices for a number of UNEs, including Loops, Cross-connects and Multiplexing. He also described each UNE, the associated rate elements and the pricing methodology.

This Commission has established cost and pricing standards for setting UNE rates in recent ratemaking proceedings. Pursuant to OAC 165:55-17-27(a), UNE prices:

- shall be based on the cost of providing the network element, determined without reference to a rate-of-return or other rate-based proceeding;
- shall be nondiscriminatory; and
- may include a reasonable profit.

To determine UNE prices that comply with these Commission requirements, SWBT conducted forward-looking economic cost studies using forward-looking long run incremental costs (LRIC). In addition, SWBT developed a common cost allocator that results in a reasonable allocation of common costs to each UNE.

Consistent with historical regulatory practices at this Commission, SWBT proposes a rate design that is based on three separate geographic zones to

recognize that costs vary geographically across the state. These zones are referred to as Rural Zone, Sub Zone and Metro Zone.

SWBT's Local Exchange Tariff uses six rate groups based on geographic zones. In this docket, the Commission could order one state-wide zone for UNE pricing, but that would result in no de-averaging of rates at all. The higher-cost rural elements would cost the same as the lower-cost urban elements. On the other hand, SWBT recommends against six zones for UNE rates because that would cause too much disparity with SWBT's retail tariff rates, which have been set in *inverse* relation to costs. Inefficient competitive entry would result in such a case. LSPs could enter only the lower cost urban areas of the state and successfully compete with SWBT's higher retail prices there, even if the LSP were a less efficient provider than SWBT.

In the AT&T Arbitration case, the Arbitrator used the same rate zones for certain interim rates as proposed here. SWBT's forward-looking economic cost studies for UNEs were conducted as to these three zones so that unbundled prices could be developed on a geographically de-averaged basis. Of the UNE prices presented by Mr. Sparling, discernable geographically-based cost differences were found only as to unbundled loops and dedicated transport.

Testimony in this proceeding submitted by Barbara Smith (including the testimony of Linda Robey that Ms. Smith adopted) and Barry Moore identified recurring and nonrecurring UNE costs. SWBT proposes rates to recover each cost separately as recurring or non-recurring prices. These witnesses also identified both monthly recurring costs and usage sensitive costs. SWBT proposes rates that will recover these costs in the manner in which each is incurred: monthly recurring prices to recover monthly recurring costs and usage sensitive prices to recover usage sensitive costs.

Generally, SWBT's proposed UNE rates were developed by: (i) rounding the results of these witnesses' forward-looking economic cost results; (ii) allocating common costs to the nearest $.05 for monthly recurring and nonrecurring charges; and (iii) truncating the forward-looking economic cost results at the sixth decimal place for elements charged on a per minute-of-use (MOU) basis. This rate proposal gives SWBT an opportunity to earn a reasonable profit.

Mr. Sparling's testimony described the following UNEs, which SWBT will offer:

- Network Interface Device (NID);
- Unbundled Loops;
- Loop Cross Connects;
- Dedicated Transport;
- Dedicated Transport Cross Connect;
- Digital Cross-Connect System;
- Multiplexing
- Toll Free Database;
- AIN; and
- Dark Fiber.

Mr. Sparling described how the proposed price for each of these UNEs was determined. The chart attached to Mr. Sparling's testimony as Exhibit A summarized these pricing methodologies. The chart attached to Mr. Sparling's testimony as Exhibit B listed the prices proposed by SWBT for all UNEs; the prices sponsored by Mr. Sparling are shaded on such chart.

In his rebuttal testimony in PUD 97-213, Mr. Sparling dealt with and rebutted a number of issues concerning the testimony by AT&T witnesses, as follows:

- SWBT has conducted separate cost studies to support its proposed price for installation and for disconnection of service. AT&T acknowledged this, but objected to SWBT's proposal to recover both charges at the time of installation. This is actually an objection to SWBT's cost model, not to its input. As such, the AT&T objection is contrary to the parties' stipulation entered in this cause. Furthermore, AT&T never proposed a disconnection rate which it proposes to pay. In any event, the common practice of combining installation and disconnection rates into a single recovery item is efficient and assures cost recovery for LECs when customers disconnect, whether these customers are retail or wholesale.

- AT&T's witness Segura adjusted SWBT's cost studies to eliminate non-recurring costs what he called "duplicative" tariff charges for "central office access." However, no such tariff charges exist in Oklahoma. AT&T is accordingly eliminating charges that do not exist.

- By presenting its own methodology to determine the price for dark fiber, AT&T again violated the stipulation in this cause to adopt SWBT methodologies and models. The SWBT cost study is based on the pricing of this element on an Individual Case Basis (ICB). This element must be priced on such basis. Elements or activities involved in constructing such facilities are likely to be so variable in nature that it is not reasonable to develop meaningful prices through a cost study approach. Furthermore, the activities which may be involved in provisioning this highly sensitive equipment could be complex and will not initially follow routine patterns. The demand for dark fiber is not developed sufficiently or with enough uniformity in Oklahoma for SWBT to fully understand the characteristics that users may elect when and if any orders for UNE dark fiber are received.

- Rates for AIN have already been established and are not subject to further determination in this docket. In the AT&T/SWBT Interconnection Agreement (approved by this Commission), AT&T agreed to purchase AIN services on an ICB. This determination was not interim and is now final. As such, it is not subject to further consideration in this docket.

- AT&T proposes rates for a number of new elements which are not properly a part of this docket. These elements are not included in AT&T's Interconnection Agreement with SWBT. If additional items are

needed by AT&T, the Interconnection Agreement provides for a procedure by which AT&T must request the same.

- The Interconnection Agreement between AT&T and SWBT provides for customized routing on an ICB. Nevertheless, AT&T now proposes rates for this element. This matter has already been decided and there is nothing to be determined in this cost docket.

- AT&T witness Flappan proposed no recurring or non-recurring charge for call blocking or screening on the grounds that SWBT did not submit a cost study. Mr. Sparling explained why this element must be provided on an ICB and why no cost study can effectively be conducted at this time. Until AT&T's requirements for this element are sufficiently known, SWBT is unable to determine what must be done. Accordingly, the pricing should remain ICB.

- The rounding mechanism to be used in this docket is the same as agreed between AT&T and SWBT in their Interconnection Agreement. AT&T has agreed to this approach, which mirrors industry practices. SWBT has appropriately followed the provisions of the Interconnection Agreement and AT&T's proposal to ignore that agreement should be rejected.

- AT&T's witness Turner improperly identified the architecture that can be used between SWBT's wire center and AT&T's IXC POP.

- SWBT has priced the dedicated transport entrance facility which was ordered on an interim basis in the AT&T Interconnection Agreement. It has been specifically priced for DS1 and DS3 in accordance with the provisions of existing infrastructure facilities and equipment. The Agreement also provides that dedicated transport elements are provided over such routes as SWBT may elect at its own discretion. If AT&T wishes to request special routing of dedicated transport, SWBT will respond to such request under the special request process in the Interconnection Agreement, not in this cost docket.

In his direct testimony in PUD 97-442, Mr. Sparling presented SWBT's proposed prices for (1) Intercompany Compensation For Local Traffic (Transport and Termination) and (2) Interim Number Portability. He described each element, the associated rate elements and the pricing methodology for each. The prices proposed by Mr. Sparling for these elements are based on the technical descriptions provided in Mr. Deere's testimony and the cost studies presented in Ms. Smith's testimony. Exhibit A attached to Mr. Sparling's testimony contained a list of all prices proposed in this docket. Prices sponsored by Mr. Sparling are shaded such list.

This Commission has established costing and pricing standards to be used in setting prices for some (but not all) non-UNE interconnection services. The standards set forth in OAC 165:55-17-25 and 55-17-27 apply to the transport and termination of traffic, but not to Interim Number Portability.

The rules of this Commission set out in OAC 165:55-17-15 and the provisions of section 252(d)(2) of the Telecommunications Act of 1996 provide for the mutual

and reciprocal recovery by each carrier of costs arising when it transports or terminates calls that originate on the facilities of another carrier. In this cause, Mr. Sparling proposed rates for the transport and termination on SWBT's network for calls originating on the network of a Competitive Local Exchange Carrier (CLEC). The pricing methodology for these services is summarized on Exhibit B of Mr. Sparling's testimony.

Interim Number Portability (INP) is an arrangement that permits a telephone subscriber switching its local service from SWBT to another switched-based CLEC to retain the terminating use of the same telephone number previously assigned by SWBT. The term "interim" indicates that these are temporary measures available prior to implementation of a permanent number portability. In accordance with the Federal Telecommunications Act, FCC orders and this Commission's rulings in both of the SWBT-AT&T Arbitrations (PUD 96-218 and PUD 97-175), SWBT provides two alternative types of INP: INP-Remote, which is a form of Remote Call Forwarding and INP-Direct, which is a form of Direct Inward Dialing Service, as explained in detail by Mr. Deere. The pricing methodology for these services is summarized on Exhibit B of Mr. Sparling's testimony.

In his rebuttal testimony in PUD 97-442, Mr. Sparling rebutted testimony by AT&T's Mr. Flappan concerning rates for Interim Number Portability (INP). AT&T's position was that INP prices should not be set in this docket. SWBT seeks INP rates here.

In the Interconnection Agreement, SWBT and AT&T agreed to track the costs associated with the implementation and provisioning of INP and to true-up INP based on these costs. SWBT was to conduct a TELRIC study utilizing the Elemental Access Lines (EALs) method and the parties agreed to submit the study to the Commission in this cost docket. Furthermore, in his direct testimony, Mr. Sparling included rates that SWBT is proposing for INP, according to the Interconnection Agreement between the parties. SWBT is not currently charging any party for INP but is tracking costs so that a proper true-up can occur once INP rates are established in this docket.

Nevertheless, AT&T's Mr. Flappan disingenuously and erroneously suggested that the FCC has ordered that the parties bear their own cost of INP and that SWBT has agreed to this procedure. To the contrary, the matter of INP cost recovery has been determined by this Commission in the arbitration proceeding approving the Interconnection Agreement between SWBT and AT&T. The INP cost study presented by Ms. Smith was commissioned so SWBT could establish its rates and properly track its INP costs as they are incurred. AT&T has now had ample time to provide its own cost study regarding this element. The additional time as suggested by Mr. Flappan is unwarranted. The Commission should set INP rates without delay based on SWBT's cost study.

17. Charles H. Cleek

In his direct testimony in PUD 97-213, SWBT witness Charles H. Cleek testified that he is District Manager for Rates and Industry Relations for SWBT. In his testimony, he addressed SWBT's proposed prices for a number of UNEs, including Directory Assistance, Operator Services and Operations Support Systems.

He also described each of these UNEs, the associated rate elements and the pricing methodology.

Mr. Cleek referred to the cost and pricing standards established by this Commission for setting UNE rates. To determine prices that comply with these Commission requirements, SWBT conducted forward-looking economic cost studies using forward-looking LRIC for the UNEs presented by Mr. Cleek. In addition, SWBT developed a common cost allocator that results in a reasonable allocation of common costs to each UNE.

Testimony in this proceeding submitted by Barbara Smith (including the testimony of Linda Robey that Ms. Smith had adopted) identified recurring and nonrecurring UNE costs. SWBT proposes rates to recover each cost separately as recurring or non-recurring prices. Ms. Smith also identified both monthly recurring costs and usage sensitive costs. SWBT proposes rates that will recover these costs in the manner in which each is incurred: monthly recurring prices to recover monthly recurring costs and usage sensitive prices to recover usage sensitive costs.

Generally, SWBT's proposed UNE rates were developed by: (i) rounding the results of the forward-looking economic cost results; (ii) allocating common costs to the nearest $.05 for monthly recurring and nonrecurring charges; and (iii) truncating the forward-looking economic cost results at the sixth decimal place for elements charged on a per minute-of-use (MOU) basis. This rate proposal gives SWBT an opportunity to earn a reasonable profit.

Mr. Cleek's testimony described the following UNEs which SWBT will offer:

- Direct Assistance;
- Access to Directory Assistance Database;
- Operator Service Call Completion Services;
- Call Branding;
- Service Rate Information;
- Operations Support Systems (OSS);
- Service Order Charges;
- Maintenance of Service Charges;
- Time and Material;
- Non-Productive Dispatch; and
- Performance Data.

Mr. Cleek described how the proposed price for each UNE was determined. The chart attached as Exhibit A to Mr. Cleek's testimony summarized these pricing methodologies. The chart attached as Exhibit B to Mr. Cleek's testimony listed the prices proposed by SWBT for all UNEs; those prices sponsored by Mr. Cleek are shaded on said chart.

In his rebuttal testimony in PUD 97-213, Mr. Cleek dealt with several pricing issues in dispute.

- The price for the customer disconnect notice (to be provided by SWBT to the CLEC when its customer changes to another CLEC or to SWBT) is not subject to this docket. The price was already determined to be

10 cents for each working telephone number in the second AT&T arbitration. In any event, this is not a network element and is not subject to the pricing standards for UNEs under either the Act or the Commission's rules.

- AT&T contended that system access to Operations Support Systems should be provided at no charge because SWBT failed to provide a cost study. Mr. Cleek confirmed that a cost study was provided.

- AT&T proposed that performance data should be provided at no charge. This proposal is contrary to AT&T's Interconnection Agreement with SWBT, which provides that AT&T will compensate SWBT for performance data. The parties are required by the agreement to jointly define the performance data to be provided; however, they have not yet done so. Until the data to be provided is establishing by agreement, it is impossible to determine a price for providing it. This is why SWBT has proposed that rates for this item be developed on an Individual Case Basis (ICB).

- AT&T proposed that charges for various maintenance, time, and dispatch be billed in 15 minute increments. This is contrary to the provisions of the Interconnection Agreement that have been approved by the Commission. Furthermore, SWBT's internal systems now provide for billing such items on 30 minute increments; there is no requirement to redo all of SWBT's internal systems to accommodate AT&T.

- AT&T proposed that access to SWBT's directory assistance database be provided at no charge, subject to true up. This item should be charged ICB because costs (and thus pricing) are very dependent on the type of arrangement the CLEC wishes to use to access the database. There are at least four different types of access configurations to choose from and the price is dependent on the configuration chosen. In any event, there have been no requests from CLECs for this service, so ICB pricing should not be a problem.

In his direct testimony in PUD 97-442, Mr. Cleek addressed SWBT's proposed prices for all rate elements *except* (1) Intercompany Terminating Compensation for Local Traffic (transport and termination), (2) 911 and (3) Interim Number Portability. He described each element, the associated rate elements and the pricing methodology for each. Based on the technical description of each element provided in Mr. Deere's testimony, together with the cost studies presented by Ms. Smith (including the testimony of Ms. Robey adopted by Smith), Mr. Cleek presented prices for each element. Attached as Exhibit A to Mr. Cleek's testimony is a list of all prices proposed by SWBT in this docket. Prices sponsored by Mr. Cleek are shaded in said Exhibit A.

A number of the prices for rate elements presented by Mr. Cleek in this cause are the same as the prices presented in PUD 97-213 for the comparable UNEs. Directory Assistance, Operator Services and Operator Support Systems are the primary elements involved. All such elements are identified in the pricing schedule attached as Exhibit A to Mr. Cleek's testimony by the phrase "rates same as in Cause No. PUD 97000213."

Elements which duplicate UNEs are included in this cause because SWBT has agreed to make them available to LSPs when they resell SWBT services or when they operate as facilities-based providers. The price proposed for Service Rate Information (OS/DA) is slightly different for resale than for UNEs. When providing this service in a resale environment, the cost differs slightly because a different billing system will be used for resale. The rates proposed here reflect these minor billing differences.

Mr. Cleek described the following additional elements that do not correspond to a UNE:

- White Page Directories;
- Information Page included in White Page Directories;
- Directory Assistance Listings;
- Non-published Emergency Message Service;
- Customer Conversion Charge; and
- Directory Assistance Call Completion.

Mr. Cleek described how the proposed price for each of these elements was determined. The chart attached as Exhibit B to Mr. Cleek's testimony summarized the pricing methodologies for each element. Prices for each are included in Exhibit A of Mr. Cleek's testimony.

In his rebuttal testimony in PUD 97-442, Mr. Cleek discussed the pricing for a number of items with which there is a dispute with the CLECs. There is no assertion that any of the items covered by Mr. Cleek's rebuttal testimony in this cause are UNEs or that they are subject to the costing standards of the Telecommunications Act.

Mr. Cleek first dealt with SWBT's proposed rates for directory assistance listings, directory assistance call completion and non-published emergency services. These are all services SWBT now provides to other telecommunication service providers, independent local exchange companies (ILECs) and other operator service providers (OSPs). SWBT proposes rates here that are identical to those being charged to these others. These rates have been approved by the OCC in the context of contracts negotiated with ILECs or OSPs.

The next issue dealt with system access to Operation Support Systems (OSS). Mr. Flappan proposed that access be provided at no charge because he believes SWBT failed to provide a cost study for this item. Mr. Cleek rebutted this position by explaining that such a cost study was provided.

SWBT proposed a $10.00 charge for the order and delivery of a white pages directory subsequent to the initial order. The purpose of this charge is to give an incentive for CLECs to accurately estimate the number of books that they will require during the directory year so that all directories can be printed at once. Additional printings based on subsequent orders are more expensive. Hence, the

$10.00 charge is proposed. The suggestion by Mr. Stright that subsequent orders can be filled from existing inventories is incorrect. SWBT plans on printing the number of directories requested by each CLEC and the number of directories needed for its own end users. SWBT will not use inventory to meet subsequent requests for directories.

AT&T proposed that additional directories be provided at no cost. That proposal should be rejected because it would give CLECs incentive to underestimate their initial orders when they could get subsequent copies for free. The $10.00 rate proposed by SWBT places the burden of providing good estimates on the CLECs instead of on SWBT.

AT&T and the Liberty witnesses proposed a statewide average rate for the CLEC information page that will be included in SWBT'S white pages directory. If an average rate were to be provided, and a CLEC is operational only in the metro zones where costs are considerably higher, that CLEC will be able to obtain its information page below the cost for the areas it will be serving. The correct way to price this service will be at the three geographic zone rates proposed by SWBT.

Mr. Cleek reviewed the clear and concise method for charging for white pages proposed by SWBT. He contrasted this with the confusing and ambiguous proposal suggested by Mr. Hvalak.

Mr. Stright proposed that customer conversion charges for resale be based on the assumption that all ordering will be fully mechanized. This is an incorrect assumption and would result in below-cost pricing. SWBT has not been able to provide certain types of service without manual intervention in the past and does not foresee a change in this pattern in the future. In a perfect world and as computer systems become more sophisticated, one would hope that many of the current manual operations can be eliminated. However, there is no expectation that these processes can be mechanized at this time. Therefore, SWBT should be allowed to recover its costs in converting these services, including the cost of manual intervention.

Furthermore, if the cost of manual processing were excluded, SWBT would be forced to provide manual orders well below its cost to those CLECs that do not develop mechanized systems. The $5.00 charge that SWBT proposed is the same rate charged out of its access tariffs for a customer changing their primary interexchange carrier and should be adopted here.

After the Commission ordered the ALJ to reopen the record and admit the prefiled testimony of Staff's witnesses, SWBT filed a brief discussing the impact of the Staff testimony on the case. Included with SWBT's brief was the affidavit of Mr. Cleek. In his affidavit, Mr. Cleek set forth several reasons why the nonunanimous stipulation should be adopted by the Commission, as follows:

1. Prior to proposing stipulated rates in the cost dockets, PUD 97-213 and PUD 97-442, the Staff had access to the results of the cost studies submitted by SWBT, AT&T and Staff's consultant, Liberty Consulting. In fact, SWBT responded to in excess of 366 formal data requests in this docket, 177 of which were served on SWBT by Staff through Liberty. In addition, Liberty informally

contacted SWBT on numerous occasions to inquire about certain issues. These requests sought detailed and voluminous information regarding SWBT's costs, cost studies and proposed rates. Therefore, Staff had sufficient information available to it, prior to proposing the stipulated rates, to conclude that such rates were indeed cost based. This is evident by the fact that Staff's stipulation states "the rates set forth on Attachment 'A' are fair and reasonable and satisfy the costing standards contained in Section 252 of the federal Telecommunications Act of 1996 and are forward-looking."

2. In setting the recurring rates contained in the stipulation, Staff concluded that the appropriate rates for 2-wire unbundled loops should be set at $13.00 for urban areas, $15.00 for sub-urban areas and $35.00 for rural areas. These proposed rates are much closer to the rates AT&T proposed in this docket than the rates which were put forward by SWBT. In fact, Mr. Auinbauh testified that the urban loop rate contained in the stipulation is approximately two thirds of the rate AT&T requested. For access to operational support systems, Staff elected to propose the same rates that AT&T had previously proposed in its settlement offer. For those elements that AT&T contended should be provided at no charge, Staff determined that the appropriate rate for each such element should be equal to two thirds of the rate proposed by SWBT. Finally, for all remaining recurring elements, the stipulated rates constitute an average of the rates proposed by SWBT and AT&T. In establishing the rates for non-recurring charges, Staff stipulated to a rate equal to two thirds of the rate being proposed by SWBT.

3. SWBT reviewed and analyzed Staff's proposed stipulated rates and concluded that such rates were supported by cost evidence introduced by SWBT, Liberty and AT&T in these dockets. In fact, Liberty was a driver of the stipulation in that Liberty's proposed revisions to the parties' inputs and assumptions were considered by SWBT in evaluating the potential outcome of the case given the issue matrix items which were being disputed.

4. The principal cost drivers are loop, port and switch, each of which are an issue matrix item for which each of the parties, including Staff, through Liberty, had a different proposal. As for loop, in analyzing the matrix and from past experience, SWBT believed that decisions on fill factor, depreciation and cost of money (which SWBT had already agreed to change, but had not yet done so in its own cost outputs) would have a significant impact on the eventual cost outcome. For instance, adjustments in depreciation could result in a cost different of between $2.00 and $2.25 per line per month, a fill factor adjustment could result in a cost difference of as much as $3.00 per line per month, while an adjustment in the cost of money could result in a cost difference of as much as $1.00 per line per month. SWBT had rerun its loop studies using Liberty's proposals and the results were remarkably close to the proposed stipulation number, as evidenced by the chart set forth below.

	SWBT	AT&T	COX	LIBERTY	STIPULATION
Urban Loop Rate	$20.70	$10.21	$14.01	$12.31	$13.00

5. For switching, SWBT saw a similar analysis. According to the issue matrix , items such as switch discounts, demand, treatment of nonrecurring costs, feature related hardware and startup were at issue in this docket. From past experience, SWBT knows that the Commission's determination on the various positions of the parties on these issue matrix items would have a significant impact on cost output. Rerunning SWBT's SCIS utilizing Liberty's inputs confirmed the cost would significantly decrease if the above matrix items were resolved in Liberty's favor. SWBT did dispute the treatment of switch/port nonrecurring and therefore, in considering the proposed rate in the stipulation, we were convinced that our position was correct and the stipulated rate so reflects that, as evidenced by the chart set forth below.

	SWBT	AT&T	LIBERTY	STIPULATION
Local Switch	$0.003463	$0.001074	$0.002048	$0.002268
Port Charges	$2.10	$2.25	$2.45	$2.18

6. With respect to the issue matrix items related to transport, fill, depreciation and the cost of money would be the principal drivers of the cost outcome. Using the same analysis Mr. Cleek described above for loop, and rerunning the studies using Liberty's proposals, it was determined that if Liberty's proposals were accepted, the stipulated rate would be reasonable and consistent with those costs as reflected below.

	SWBT	AT&T	LIBERTY	STIPULATION
Transport Facility Per MOU	$0.00012	$0.000003	$0.000005	$0.000008

7. The final significant cost driver was the common cost allocator. There were numerous proposals on how to calculate the common costs and what the outcome should be. SWBT proposed a common cost allocator of 16.64. It also considered the impact of a lower common cost allocator (i.e., Liberty proposed a 13.1 percent common cost allocator) on our proposed rates and took that into consideration in determining that the stipulated rates were just and reasonable.

8. The remaining rate elements have a lesser impact on overall operations and the ability of CLECs to be in business. SWBT did not follow as detailed an analysis for those, but again, given the issue matrix items and the results of the more detailed analysis of the items discussed above, it is SWBT's judgment that the stipulated rates represent a reasonable outcome of the disputed items on the issue matrix such as fill, time adjustments, depreciation, utilization, building factors, cost of money and the common cost allocator.

9. SWBT is concerned with the Section 252 requirement that the rates be based upon cost, plus a reasonable profit. It is SWBT's judgment that the stipulated rates meet the requirements of the federal Act.[3] The obligation under

[3] Further evidence that stipulated rates can be cost based is the fact that SWBT and AT&T reached a stipulation on the appropriate cost of capital to be used in calculating rates, which Staff signed as unopposed. As is the case with

Section 252 is for the Commission and SWBT to arrive at just and reasonable rates. A witness for a major facility-based CLEC in Oklahoma, Dr. Francis Collins, on behalf of Cox, testified that the input data to the cost studies presented by the various parties are subject to speculation, are forward looking and have been developed as a result of estimates of time, cost, inflation rates and other subjective estimates. As a consequence, he testified that a reasonable outcome of the cause could be the rates that are in the stipulation which he considers to be cost based. He further testified that Cox could enter the competitive marketplace and become a competitor in Oklahoma with the rates proposed in the stipulation. Dr. Collins also testified that the rates in the settlement would not negate a company's ability to enter the competitive marketplace in Oklahoma, irrespective of its market entry strategy. For these reasons, Dr. Collins asked that the stipulation be approved by the Commission. SWBT concurs with Cox's assessment of the stipulation. In evaluating the stipulation, SWBT believes that the Commission should give Cox's testimony more credence than AT&T's given the fact that Cox has already entered the market, is currently in business in Oklahoma, has collocated in SWBT's central offices and is currently passing orders. Conversely, AT&T is not currently in business in Oklahoma and recently at the hearing in Cause No. 97-560 ("the 271 proceeding"), presented testimony that it would not enter the market in Oklahoma in the near future, if ever. SWBT concurs with Cox's assessment.

B.Cox's Evidence and Testimony

Dr. Francis R. Collins

Dr. Francis R. Collins testified on behalf of Cox Oklahoma Telcom, Inc., ("Cox"). Dr. Collins offered both prefiled direct and rebuttal testimony. In his prefiled testimony Dr. Collins briefly discussed the Telecommunications Act of 1996 ("Act") and the resulting First Report and Order issued by the Federal Communications Commission ("FCC"). Dr. Collins testified that the Total Element Long Run Incremental Costing ("TELRIC") methodology embodied in the Act and developed in the FCC's First Report and Order is intended to replicate, as closely as possible, the conditions of a competitive market. As Dr. Collins pointed out, the soundness of the TELRIC methodology was not challenged in the subsequent appeal to the Eighth Circuit Court of Appeals, and was not overturned by that Court's decision. The specific determination of the TELRIC of specific unbundled network elements was left to state commissions such as the Oklahoma Corporation Commission in this docket.

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nearly all of the rates proposed by Staff in the stipulation, the cost of capital contained in the AT&T/SWBT stipulation falls between what was proposed by SWBT and AT&T, yet there is no claim by AT&T or any other party that the number agreed to is not cost based. In fact, in that stipulation, AT&T specifically agreed "that the cost of capital agreed to...satisfies the costing standards set forth in Section 252 of the federal Telecommunications Act of 1996 and is a forward-looking cost of capital."

Dr. Collins further testified that the TELRIC methodology sets the rates for interconnection and unbundled network elements ("UNEs") at the forward-looking economic cost of providing interconnection and UNEs. These costs consist of two parts: cost of capital and expenses. Dr. Collins distinguished the forward-looking cost of capital required in this cause from the cost of capital determinations historically made in traditional rate cases. The task of regulators in traditional rate cases was to insure the monopoly's recovery of all historically incurred embedded accounting costs. In contrast, Dr. Collins testified that the focus of the Commission in this docket is on the pricing of specific services or network elements. The issues of concern to the Commission in this docket should be market entry and economically efficient pricing for new entrants, rather than the recovery of historical costs for incumbent local exchange carriers. This requires the use of forward-looking capital costs and a market value capital structure, rather than the historical capital costs and structures traditionally used.

Dr. Collins testified that SWBT's proposed weighted average cost of capital of 10.69% is too high and should be rejected. Dr. Collins did determine that the 58% equity and 42% debt capital structure used by SWBT was within the range of reasonableness, although on the high side. Dr. Collins, however, rejected SWBT's proposed 7.5% cost of debt. Dr. Collins testified that the current yield on Aa rated utility debt is currently approximately 7.0% and declining. Accordingly, Dr. Collins recommended that the Commission use 7.0% as the appropriate forward-looking cost of debt associated with SWBT's provision of UNEs.

Dr. Collins also rejected SWBT's proposed 13.0% cost of common equity as substantially too high. Dr. Collins pointed out that a discounted cash flow analysis produces a cost of equity of 12.0% for SBC, SWBT's parent corporation, as compared with a cost of 11.5% for a Regional Holding Company. However, Dr. Collins testified that both of these figures reflect consolidated operations, which are influenced in an upward fashion by more risky operations than simply providing UNEs. Given these risk differentials and the fact that capital costs have fallen dramatically in recent times, Dr. Collins concluded that the cost of common equity established in this proceeding should be *no greater* than 11.0%.

Using the 58% equity and 42% dept capital structure accepted by Dr. Collins, as well as his recommended 7.0% cost of debt and maximum cost of equity of 11.0%, produces a forward-looking, weighted average cost of capital of 9.32%. Dr. Collins recommended that this figure be reduced further when applied to UNEs and interconnection services because of the minimal risks involved. However, to avoid controversy Dr. Collins used the 9.32% figure in developing his testimony and recommended that the Commission direct SWBT to re-run its TELRIC studies using the 9.32% figure.

In his rebuttal testimony Dr. Collins noted that some or all of the other parties in this cause have agreed to use a 10.00% weighted average cost of capital. Dr. Collins testified that the 10.00% figure is significantly too high and pointed out that his 9.32% recommendation is a conservative estimate. Dr. Collins recommended that the Commission adopt his 9.32% recommendation rather than the 10.00% figure.

With regard to his TELRIC analysis of SWBT's proposed UNE rates, Dr. Collins testified he originally intended to bifurcate his TELRIC studies in this docket into two phases. His Phase (A) analysis would determine the TELRIC costs of SWBT's UNEs using the Bellcore models employed by SWBT in its analysis (e.g., CAPCOST), with appropriate modifications only as to input values. His Phase (B) analysis would go further and determine the TELRIC costs of SWBT's UNEs using appropriate input values and appropriate modeling procedures and computational algorithms (e.g., CAPCOST PLUS instead of CAPCOST). Dr. Collins pointed out that the Phase (B) analysis was necessary because of SWBT's use of the outdated and unacceptable CAPCOST model rather than the more recently developed and more appropriate CAPCOST PLUS model. Dr. Collins testified that because of the procedural schedule imposed in this docket, he was unable to fully complete either Phase (A) or Phase (B) of his TELRIC analysis.

In his Phase (A) analysis Dr. Collins used all of the same models as SWBT, but with modified input values. Dr. Collins testified that he was unable to perform the independent studies necessary to establish the appropriate values for all TELRIC model inputs. Of necessity, Dr. Collins used several of SWBT's input values, although with certain minor modifications obviously required. Dr. Collins found a number of these input values to be questionable. Examples are the maintenance and administration expense factors that SWBT proposes to apply to its unbundled loop incremental investment and the common cost factor (18.64%) proposed by SWBT. Dr. Collins also questioned the appropriateness of the incremental investment (e.g., engineering, power, fill factors and support facilities) that SWBT claimed is necessary to provide unbundled loops.

Dr. Collins also noted that SWBT has produced a separate study for the non-recurring costs associated with the network interface device ("NID"), but no study for the associated monthly recurring costs. The FCC requires the NID and the local loop to be separate UNEs. The absence of a separate SWBT study for the monthly recurring costs of a NID suggests the possibility that these costs are bundled within the local loop cost study. If so, Dr. Collins testified that this would violate the FCC's requirements to unbundle the NID and the local loop, and would overstate the recurring costs of the loop.

Dr. Collins testified that his Phase (A) analysis confirmed what he has found to be true in a number of other jurisdictions: SWBT's use of the CAPCOST model is inappropriate and overstates the TELRIC results. The overstatement is compounded in this instance because of SWBT's use of the oldest version of the CAPCOST model rather than the newer (but still inappropriate) CAPCOST PLUS model. Dr. Collins testified that use of the CAPCOST model in TELRIC cost studies is inappropriate because it utilizes regulatory accounting conventions that bear little relation to the way prices are set in competitive markets, or to the proper pricing of UNEs today. While the CAPCOST PLUS model was developed to mitigate the deficiencies of the older CAPCOST model, Dr. Collins' experience has shown that even CAPCOST PLUS overstates the TELRIC of UNEs because of the computational algorithms of the model. On the basis of his Phase (A) analysis, Dr. Collins determined that SWBT's TELRIC input values are biased upwards. Dr. Collins recommended that Commission remove such biases by requiring SWBT to re-run its cost studies using his recommendations.

Due to the time restraints in this docket Dr. Collins was only able to substantially complete his Phase (B) analysis as to SWBT's 2-wire local loop costs. Two-wire loops were chosen because they are one of the most important UNEs in creating a level playing field for facilities-based CLECs. Exhibits FRC-1 through FRC-5 collectively present the initial TELRIC results, input values and calculation methods in Dr. Collins' Phase (B) analysis.

Dr. Collins' initial estimated monthly recurring TELRIC costs for SWBT's unbundled 2-wire loops are:

Group 1 (rural) - $34.76

Group 2 (urban) - $19.22

Group 3 (metro) - $14.01

Dr. Collins testified that SWBT's proposed loop costs are substantially overstated, exceeding his own estimates by 42-48%. For these reasons, it is Dr. Collins' recommendation that SWBT's proposed costs for UNEs be rejected, and that SWBT be required to re-run its studies using the appropriate input values and modeling procedures, as determined by the Commission in this docket.

In light of the Administrative Law Judge's ruling striking the prefiled testimony of the Liberty Consulting Group ("Liberty") on behalf of the Commission's Public Utility Division ("PUD"), Dr. Collins offered additional oral rebuttal testimony. Dr. Collins testified that if the costs presented by SWBT for its UNEs were adopted by the Commission and used to develop rates, the rates for unbundled loops would essentially match the existing retail revenues for the same services. In Dr. Collins' opinion this fact indicates that there is a margin of zero between the wholesale costs necessary to compete and the retail prices in the marketplace today. Dr. Collins testified that it is impossible to create a competitive environment where the margin is zero.

In addition to his prefiled testimony and additional oral rebuttal testimony, Dr. Collins testified in support of the stipulation between Cox and PUD (the "Cox/PUD stipulation" or "Cox/PUD agreement"), which SWBT agreed not to oppose. Dr. Collins testified that the Cox/PUD stipulation was a compromise settlement of the positions filed by the signatory parties and did not completely satisfy any of the signatories. Dr. Collins urged the Commission to accept the Cox/PUD agreement. However, in the event the Cox/PUD agreement was not accepted by the Commission Dr. Collins recommended that the Commission require SWBT to rerun its TELRIC cost studies using Cox's recommended cost of capital, depreciation rate and the other modifications contained in his prefiled testimony.

In response to cross-examination regarding the Cox/PUD stipulation Dr. Collins testified that the record in Cause No. PUD 970000213 contains evidence of a broad range of TELRIC costs. SWBT has filed evidence establishing the upper boundary of the range of TELRIC costs and rates for UNEs; while AT&T has filed evidence establishing the lower boundary of the range; Cox has filed evidence supporting TELRIC costs and rates lower than SWBT but higher than AT&T. Dr. Collins testified that this disparity among the parties' evidence is an

indication that the positions set forth in the filed testimony is dependent upon the input data utilized in the various costing models. Dr. Collins testified that there is a certain amount of speculation and subjectivity that goes into quantifying the input data because it is forward looking. For example, much of the input data is based on estimates: estimates of time, estimates of cost, estimates of inflation rates in the future.

Given the subjectivity of the input data and the resulting broad range of TELRIC output, Dr. Collins testified that the rates contained within the Cox/PUD stipulation are within the range of possible outcomes in this docket. Dr. Collins testified that although some of the stipulated rates are higher than what Cox would prefer, Cox believes it can enter the competitive marketplace in Oklahoma on the basis of the Cox/PUD agreement. Where the stipulated rates are higher than Cox desires it will "work around" those situations by deploying development and implementation strategies of its own. Where Cox is unable to work around the higher rate, Dr. Collins testified that Cox will simply pay the higher rate.

Summary of Cross-Examination of Francis R. Collins

Upon questioning by the ALJ, Dr. Collins explained that Cox has no disagreement with the cost models used in SWBT's cost studies. He explained that in the range of costs developed in this docket, SWBT is on the significantly high side, that AT&T is at the other extreme and that Cox is somewhat above AT&T but below SWBT. The differences between these costs is the result of differences of opinions in the input data. Dr. Collins stated that the cost developed by the various parties are forward looking. They have been developed as a result of estimates that are somewhat subjective. He stated that it is quite natural that the subjective inputs, being influenced by different parties with different agendas, will result in different outcomes. He concluded that one of the legitimate outcomes from all the cost data presented by the various parties is that set of rates set forth in the stipulation.

He further explained that with the settlement rates, Cox could enter the competitive marketplace and be a competitor as a facility-based carrier. He specifically stated that Cox could compete under the stipulated rates. He stated that Cox, like every other competitor, will not need the use of the full range of unbundled network elements. In some cases, the network element costs are higher than Cox would like to see. Cox will try to work around those situations by deploying development and implementation strategies of its own. When it can't do that, it will pay the higher rates. When all that is put together, Cox believes that the stipulation represents an opportunity to become competitive and Cox is willing to support the stipulation.

In cross-examination by AT&T, Dr. Collins refused to conclude that SWBT rates are not cost-based rates. Rather, he concluded that the stipulated rates provide a set of cost-based rates supported by the various cost data presented by the parties. Dr. Collins also outlined the manner in which the stipulated rates were calculated. He concluded that the outcome of that process resulted in rates that fell within a range of reasonable cost-based rates that Cox could support.